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Spain Undertakes "Charm Campaign" in Response to European
Criticism

[1](#)1. (U) Local media reported on German government criticism of President Zapatero's EU statement calling for economic sanctions for EU member countries that fail to meet specified objectives in the successor to the Lisbon Strategy for EU Growth. Rainer Breuderle, German Minister of Economics and Technology, expressed concern that the plan would create a sanctioning authority inconsistent with the Lisbon Strategy. This latest criticism comes on the heels of widespread European skepticism over President Zapatero's EU economic leadership credentials at a time when his own country is suffering from the highest unemployment rate in the OECD (more than 19%). This weak economy also continues to draw criticism from the opposition party. A Popular Party spokesperson dismissed the recent GOS announcement on jobs created through stimulus packages, saying many were short-term in nature and that the disbursement of funds was politicized, with over half going to Socialist Workers' Party (PSOE) regions. The GOS has hired a Belgian production company for 83 million euros to showcase President Zapatero's program to improve the domestic economy and dispel rumors that he does not have the capacity to direct the EU. Additionally, senior GOS officials are being encouraged to reach out to major European media outlets to discuss their perspectives and recommendations on the economic situation. (Expansion, 1/12; El Confidencial, 1/13)

Large Number of Spain's Savings Banks Facing Capital Shortages

12. (U) A considerable number of Spain's savings banks ("cajas") are facing capital shortages. Analysts say that 16 of 38 cajas for which data is available have capital ratios below what they consider an acceptable rate of 7%. The Bank of Spain has been pushing for a rapid restructuring of the sector in order to avoid further government interventions. Thus far only a few of the cajas have used the GOS "FROB" restructuring fund. (Expansion, 1/13)

Revised 2009 Inflation Rate at 0.8%

13. (U) The National Statistics Institute (INE) revised its estimate of 2009 consumer price inflation from 0.9% (as reported ref A) to 0.8%. The final rate, although the lowest in 50 nearly years, indicates that deflation is not a serious threat at present. (INE press release, 1/14; Expansion, 1/14)

Blanco Proposes Use of Automated Flight Systems and Private Investment in Airport Management

14. (U) Infrastructure Minister Blanco released a Congressionally-mandated report analyzing airport profitability and announced plans to improve efficiency and productivity in a speech to Congress on January 12. With only nine of the 48 airports managed by the GOS earning a profit, the Minister blamed high salaries for air traffic controllers, which average around 334,000 euros annually and reach above 900,000 for some including overtime. He proposed replacing air traffic controllers in low volume airports with an automated system known as Aerodrome Flight Information Service (AFIS). GOS aviation officials have been in touch with FAA counterparts to learn more about the role of automated systems in the U.S.

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15. (U) The Minister also elaborated plans to improve airport efficiency and profitability by restructuring airport oversight and management in compliance with EU regulations. The GOS would create a new entity, "Aena Aeropuertos, SA," to assume the responsibility of airport management, currently overseen jointly with aviation by the quasi-governmental agency AENA. The new model would shift the authority for setting airport fees from the Congress to Aena Aeropuertos, SA. It would also allow for private investment of up to 30% in the new entity and provide a role for autonomous communities. Blanco envisions creating subsidiaries to manage airports with high traffic, economic viability, and special complexity (at present only Madrid's Barajas and Barcelona's El Prat would meet these criteria). Private companies could invest up to 10% in the subsidiaries, while the autonomous communities could invest up to 39%, both would have management input. Additionally, the GOS plans to create regional airport committees to increase local government involvement. The EU deadline for separating out the airport management function is 2011 and the GOS anticipates introducing a proposed legislation before June this year. (All Media, Fomento and Moncloa websites, Embassy)

Telefonica Attempts to Reassure Stockholders after Devaluation of the Venezuelan Bolivar

16. (U) Telefonica issued a strong statement attempting to calm and reassure its stockholders in light of the devaluation of the Venezuelan Bolivar (devalued 50%, from 2.15 to 4.3 Bolivars to the dollar) on January 11. Telefonica's share prices fell 3% after news of the devaluation, the largest drop in over a year. Both ING and Morgan Stanley are predicting that the devaluation will have a significant impact on Telefonica's profits over the next three years, with estimates of the cost ranging from 2 to 7 billion euros. The Venezuelan branch had been the company's largest and most profitable in Latin America, responsible for 9.2% of the company's total cash flow. (Cinco Dias, 1/12)

Internet Users' Groups Attack Government's Anti-Piracy Initiative

¶7. (U) Internet users' advocacy groups launched a new campaign against the government's legislative proposal to expand its authority to take down or block websites that host IPR-infringing material. Activists presented "RedSOStenable.net" (Sustainable Net) with the intention of organizing actions both on and off the Internet during Spain's EU Presidency to convince the public that the government's proposed anti-piracy measures are unworkable. According to one of the promoters of the new campaign, the government's initiative "is not a law against IPR violations but a law against civil liberties." The GOS amended its original proposal (ref B) to include a judicial review and authorization before shutting down any website, but Internet users consider the safeguards insufficient. Comment: This is the third campaign/manifesto launched by the "internautas" since the government introduced legislation in early December. These populist advocacy groups are very vocal but it remains unclear how numerous they are or whether they have any influence. The Internautas' Facebook page has 7,000 members, but the page where the manifesto was published has over 200,000 and hosts a lively dialogue. End comment. (El Pais, 1/13)

Spain and Andorra Sign Tax Information Exchange Agreement

¶8. (U) On January 14, Spain and Andorra signed a Tax Information Exchange Agreement (TIEA). This latest agreement represents another step in Andorra's efforts to be removed from the list of international tax havens. As part of the agreement, Andorra commits to bring its regime into compliance with OECD standards. Andorra is seeking TIEAs with a number of European countries as well as the United States. (El Confidencial, 1/14)

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